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TO RUEHC/SECSTATE WASHDC PRIORITY 1209

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 4060

RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEAIIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEHVEN/USMISSION USOSCE PRIORITY 2717

RUEKJCS/Joint STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 ASHGABAT 000930

SENSITIVE

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STATE FOR SCA/CEN, EEB

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SUBJECT: TURKMENISTAN: AGRICULTURAL FIXES FAIL TO RESOLVE FUNDAMENTAL PROBLEMS

REF: ASHGABAT 0872

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: As demonstrated by this year's poor wheat harvest, Turkmenistan's agricultural sector is facing a growing crisis. At fault is the sector's fundamental resistance to change. While the Soviet-era collective farms have been eliminated, most other practices remain the same, including implementation of a state command agricultural system that was taken to an extreme in former President Niyazov's last years. Most agree that the current system is not working, and there are signs that the president is considering making at least some changes. Any overhauls will take time, however, given the need to persuade officials under the president to change the way they think about agriculture. END SUMMARY.

¶3. (SBU) Turkmenistan is a desert country which has never been an agricultural breadbasket. While the soil is not bad, the lack of water, extreme heat and nomadic lifestyle traditionally have limited the scope of agricultural production to narrow swaths in the Amu Darya basin in the country's North and East, and along the Karakum Canal, which runs much of the length of the southern part of the country.

¶4. (SBU) However, during the Soviet era, the country had a thriving agricultural sector. Although the major cash crop was cotton (Turkmenistan is the world's eighth-largest cotton producer), the country also produced fodder wheat, vegetables and fruit. However, the country was never self-sufficient in wheat production except for a very brief period in the 1990's.

¶5. (SBU) In former President Niyazov's later years, he introduced a series of agricultural "reforms" that gradually led to declining production of both cotton and wheat, Turkmenistan's two major crops. These include:

-- The dissolution of Soviet-era collective farms and establishment of dayhan birleshiks (farmers' unions) as new economic entities. Farmers must rent land (all land is state-owned), and local leaders can take the land away from farmers if their production is too low. In addition, neither the farmers nor the farmers' unions were given freedom to choose their crops or access to free markets. Instead, the government instituted a command system which required farmers to

grow cotton and wheat if they wanted irrigation water, which they then had to sell to government cotton and wheat associations at below world-market prices. This resulted in a drastic decrease in agricultural production and in the living standard of the rural population, which led to migration to the cities and a general shortage of laborers for farming.

-- Poor command management, including mandated deadlines for sowing and harvesting (regardless of weather conditions), fixed state prices for major crops and a one-year land-leasing practice. These policies discouraged farmers from investing in their land parcels in order to improve their yields. During the last five years of Niyazov's rule, these policies were taken to an extreme: the government set unrealistically high targets for wheat, and farmers were forced to surrender to the state all their wheat, including any surplus grain that they had grown beyond their contract obligations.

The result: farmers refused to sign wheat contracts with the state and local governors, desperate to fulfill mandated quotas, threatened to deny them access to irrigation water for family vegetable plots.

-- Curtailment of state funds for agricultural research and the closure of the nation's agricultural research stations in the mid-1990's. This resulted in a major brain drain from Turkmenistan's agriculture sector. For example, the closure of a cotton-breeding research station led to an inability to fight crop diseases, and poor seed material and low yields.

#### LOCAL OFFICIALS BENEFIT FROM A ONE-YEAR LEASE CONTRACT.

¶6. (SBU) While some farmers have long-term contracts, the majority lease land on an annual basis. These one-year land contracts open

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the door to official corruption. After the wheat harvest is finished, many provincial governors offer the vacated plots to farmers growing rice until the next wheat sowing begins. Farmers from eastern Turkmenistan's Lebap Province reported that, because of the shortage of available plots and the increased market price for rice, the bribe for such "borrowing" increased from 2,000,000 manat (\$140) per hectare last year to 5 million manat (\$250) this year. Lebap farmers told Pol/Econ Asst that in order to make even a small profit at market, they need to get very high yields.

#### LACK OF CLEAR POLICY

¶7. (SBU) Under Berdimuhamedov, the government's agricultural policy has become less clear-cut. Although the government still enforces state orders for wheat and cotton, it has discontinued the Niyazov-era practice of providing false statistics.

¶8. (SBU) The government adopted a law in 2007 defining farmers' units as independent economic entities. Nevertheless, there has not been any progress in implementing the law. Reportedly, local authorities create bureaucratic obstacles when farmers' units apply for registration because they do not want farmers to work independently and produce products for the market. Instead, the authorities seek to ensure that farmers continue working for the state in order to fulfill provincial quotas for wheat and cotton.

¶9. (SBU) By all accounts, however, this year's wheat harvest was one of the worst in years (reftel), and farmer contacts have been reporting that the government may allow state wheat farmers to buy flour from the state flour mill at a state-subsidized price of 2,000 manat (\$.11) per kilo. Reportedly, the amount of flour a farmer is allowed to buy will depend on the amount of harvested wheat. If this happens, it will be similar to what the government is doing for state cotton growers - allowing them to take cotton seed oil from the cotton they have harvested by just paying a fee for processing. However, such an "incentive," which would cost the government nothing, would be cosmetic only.

#### NEW LAWS NEEDED TO ENCOURAGE FARMERS

¶10. (SBU) Local analysts have suggested that it is possible for Turkmenistan's agricultural sector to come back from the abyss into

which it has fallen. Suggestions include:

-- Provisions for long-term leasing contracts, under which the government would just collect fees without interfering in the farmers' business.

-- Elimination of the Soviet-style "state-order" system that instructs the farmer what to grow and fixes artificially low purchase prices.

-- Passage of new laws creating incentives for agricultural growth, including increased access to the free market.

-- Better access to loans, preferential tax rates and favorable import/export tariffs for farmers and food producers. The procedure for registering new agricultural firms also needs to be simplified.

-- More efficient allocation of state funds for agricultural development, which should be based on the economic and social needs of the provinces and less driven by political concerns. For example, President Berdimuhamedov's commitment to revive "Turkmen villages" has resulted in Esenguly Village on the Caspian shore and Ruhubelent Village in Dashoguz Province. Both of these villages have received priority funding while other rural communities continue to go without.

-- Diversification of agriculture. Since gas and cotton are major revenue earners, the country should be in a position to buy the grain it needs rather than placing a huge strain on its limited land resources and poor infrastructure by promoting a policy of wheat self-sufficiency.

¶11. (SBU) COMMENT: There have been some signs that President

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Berdimuhamedov may be considering at least some changes. There are plans for the president to visit the provinces -- reportedly on a fact-finding visit because of the poor wheat harvest -- in late July and early August. He has suggested that food production should be a priority for privatization, and the licensing law has been altered to permit this. Most significantly, however, he raised the possibility of permitting private land ownership during a July 21 Constitutional Commission meeting.

¶12. (SBU) COMMENT CONTINUED: Most of these most-needed reforms, however, go against Turkmenistan's practices over the last 80 years.

Even if the president recognizes the need for change and is willing to overhaul the agricultural sector, promoting reforms will take determination and time, since this will require persuading many of those under him to accept new ways of thinking. END COMMENT.

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